

## STATE OF MICHIGAN

## BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter, on the Commission's  
Own Motion, to implement

2008 PA 295 through issuance of  
a temporary order as required by  
MCL 460.1191.

Case No. U-15800

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## TECHNICAL CONFERENCE - NO. 2

Proceedings held at the Michigan Public Service

Commission, 6545 Mercantile Way, Room A, Lansing,

Michigan, on Tuesday, January 6, 2009, at 9:00 a.m.

Presented by

Michigan Public Service Commission Staff

Paul Proudfoot, Director, Electric Reliability Division

ALJ James Rigas, Administrative Law Manager

Mary Jo Kunkle, Executive Secretary

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Lansing, Michigan

Tuesday, January 6, 2009.

9:05 a.m.

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(Welcome and Introductory Remarks by Paul Proudfoot,  
Director, Electric Reliability Division.)

JUDGE RIGAS: Good morning. My name is  
James N. Rigas. I'm an Administrative Law Judge with the  
State Office of Administrative Hearings and Rules. I  
will be primarily responsible for the scheduling and  
helping to shepherd the contested case hearings through  
the Act 295 process.

Now yesterday we had the IOU's and the  
AES's in for the technical conference. Of those parties  
the IOU's were going to participate in contested case  
proceedings, and the AES's I understand under the Act are  
participating in comment proceedings which are going to  
be a lot less complicated.

Today the technical conference is  
directed towards the cooperatives that are regulated by  
the commission, and the municipals. And as we understand  
under the Act, the muni's will be participating in a  
comment type proceeding. So my remarks will be directed  
primarily to the co-ops and the contested case  
proceedings.

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1 I would just indicate initially that of  
2 the ten cooperatives who have been assigned case numbers  
3 to date, nine have already been directed to publish their  
4 notice of hearing for a March 2nd, 9:00 a.m. prehearing  
5 conference. And it's our intention to hearing those nine  
6 particular cases jointly.

7 And I think one question has been raised  
8 about what does it mean to proceed with an application or  
9 several applications jointly? And when we think of the  
10 concept of joining the applications, we recognize that  
11 each entity has assigned its own docket number. But to  
12 the extent we can, we'd like to move more than a single  
13 case through the process jointly. So what we'd like to  
14 do is, if possible, where we have common representation  
15 or common interests, if the parties can indicate to us  
16 that they would like to proceed with several applications  
17 jointly, each application will maintain its distinct  
18 identity but it would move through the process as a  
19 package. So you'd have a single prehearing conference  
20 with a single administrative law judge, and ultimately  
21 single days for cross-examination again. And these  
22 remarks are directed toward contested cases. But it  
23 would be a similar idea in terms of comment proceedings.

24 For purposes of today, they've asked me  
25 to remark briefly on -- we are transcribing today's  
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1 proceeding, and the transcript will be available in five  
2 business days and then will be posted to the website. We  
3 do have some slips up on the table over here, some yellow  
4 slips for RPS questions and some white slips for EO  
5 questions.

6 What we're going to do is, when we get to  
7 the question/answer portion of the proceeding today, Paul  
8 is going to answer first the questions which were  
9 submitted earlier, prior to today, then we'll take  
10 questions from the forms that have been submitted, and  
11 then we'll also provide an opportunity to those who are  
12 participating on line to submit questions.

13 When you fill out one of these slips,  
14 we'd like you in addition to stating your question,  
15 indicate your identity and who you represent, and we'll  
16 do the same thing when we take questions from the floor.

17 I really don't have a lot else to say, I  
18 mean, because my concerns are primarily with the  
19 contested case processes, and we already have scheduled  
20 nine of the ten, or at least given the dates for nine of  
21 the ten prehearing conferences and the cooperatives. So  
22 with that, I'll hand it off to Mary Jo.

23 - - -

24 (E-Filing Process PowerPoint Presentation by

25 Mary Jo Kunkle, Executive Secretary.)

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1 MR. PROUDFOOT: I'm going to start right  
2 out with the questions that we had prefiled. First  
3 question that I have: The Renewable Energy Plan  
4 Surcharge Summary Table is the same in Attachment A -  
5 IOU's, and Attachment C - Muni. Do the municipally-owned  
6 utilities need to provide the same level of detail as  
7 they invest their own utility?

8 Now, the question refers to the  
9 Commission's temporary order. So that's where you find  
10 the two tables. And I think as we look at the table and  
11 you look at the portion of the Act, Section 47, it looks  
12 kind of scary. I think Section 47 must have been written  
13 by a fairly large investor-owned utility because it has a  
14 lot of accounting terms that you would use in -- well,  
15 that the utilities typically use.

16 So I think the short answer to this is:  
17 If you fill out that table -- and the table is only for a  
18 general template -- but as you fill out that table, a lot  
19 of the lines for a simpler program are going to be zero.  
20 So you would only fill in the portion that applied to  
21 your particular company. I think as we look at the Act  
22 and we look at that Section 47, look at the template,  
23 it's real easy to over-think this activity.

24 Really, all of the statute's general  
25 theory is based on the fact that we're establishing a  
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1 fixed surcharge per meter to fund an RPS program. And if  
2 we were only going to buy REC's, it would be pretty  
3 clearcut. We would take the funds that we get from the  
4 surcharge and we would buy enough REC's to meet the  
5 standard. If you couldn't afford to buy enough REC's  
6 under the cap, then we would have to scale back our  
7 program.

8 Now when we add the idea of a  
9 utility-owned build-out and we also add the concept of  
10 purchasing energy and REC's through a PPA from a private  
11 developer, well then the concept gets a little clouded  
12 because we're buying energy and REC's. And remember that  
13 the cap is only a cap on the incremental cost of  
14 implementing an RPS. So we have bought REC's and energy,  
15 and in some cases we didn't buy the REC's and energy, we  
16 generated them in a utility-owned facility.

17 So what we have to do at that point is  
18 discover what portion of the cost of either that energy  
19 and REC's that we bought, and that energy and REC's that  
20 we generated, is chargeable to the surcharge in the Act,  
21 and what portion is energy that we sell out into the  
22 utility system. So that's basically what the complex  
23 table is trying to do.

24 And you get into the transfer rate, which  
25 for regulated utilities that have fuel adjustment clauses

1 and 304 hearings, we pull that energy portion cost out of  
2 the RPS program and put it back into the regular utility  
3 business, and that just leaves us with the incremental  
4 cost of providing an RPS, which we then fund with a  
5 surcharge. So it's a simple activity, it just looks  
6 really complex in that Section 47. So don't over-think  
7 that.

8 O.K. The second question that I have, it  
9 says: There appear to be no alternative compliance  
10 payments for REC's. Therefore, is there no ceiling on  
11 the market price for REC's in the future?

12 The Act does not place a ceiling on REC.  
13 The legislature evidently felt it was unnecessary. And  
14 because REC's can be produced any number of ways, we can  
15 buy them, we can generate them, we can purchase energy in  
16 REC's from a renewable facility under contract, I think  
17 the market will provide REC's at a reasonable price.

18 O.K. The next question. Can providers  
19 use existing renewable portfolios to meet Act 295 RPS  
20 requirements? The answer to that is yes, if the  
21 resources meet the requirements of the Act.

22 If so, can they be used for a hundred  
23 percent of their needs as long as the REC's are active  
24 and have not expired? I believe if you have enough  
25 renewable energy in your system or under your control or

1 under contract to meet the requirements of the Act,  
2 that's great. The Act is not designed to punish anybody,  
3 it's designed to require that everybody supplies a  
4 certain portion of their retail load from a renewable  
5 resource.

6 Now there are some limits for the larger  
7 utilities because there's a required capacity build-out  
8 in the Act. And I don't think either of the utilities  
9 that come under that requirement have enough existing  
10 REC's or renewal energy to comply. So I don't think  
11 that'll be an issue.

12 When coming up with a provider of  
13 Renewable Energy Portfolio -- this is the next  
14 question -- and calculating the number of Renewable  
15 Energy credits equal to the number of megawatt hours of  
16 electricity produced or obtained in a one-year period  
17 preceding October 6, 2008, can a provider count REC's  
18 that were sold to other parties? Green E certified REC's  
19 or REC's used to service customers under Green Energy  
20 Program?

21 I think the only answer to that is no.  
22 The statute is pretty specific when it comes to whether  
23 you can use the Green pricing Renewable Energy twice.

24 This is a question I hadn't thought of  
25 that came up yesterday, and the question is: Does the



1 percentage of renewables in a provider's supply portfolio  
2 go up as overall sales are reduced by actions taken as a  
3 result of the Energy Optimization Plan?

4 And effectively they do, because your  
5 overall sales will be reduced and the RPS is a function  
6 of retail sales. So if your retail sales go down, then  
7 your percentage effectively would be a smaller number.  
8 But since it's based on a percentage of retail sales, I  
9 guess that would be the case.

10 Now I'm going to go on to the Energy  
11 Optimization questions. For some reason yesterday they  
12 were more difficult. I think it was because we had a lot  
13 of questions about self-directed programs yesterday. And  
14 when you combine what we have been calling an opt-out,  
15 but rather it's a use of a State-administered program  
16 with a self-directed customer program, things get pretty  
17 confusing in a hurry.

18 First question is: How much input or  
19 control will the provider have with respect to the  
20 Administrator's Programs, or will that be totally set by  
21 the MPSC?

22 I think the current plan that we have now  
23 is that we're going to try and set up an advisory board.  
24 But the primary requirements that the State-Administered  
25 Programs provider is going to have to live under is the

1 requirements that we state in the request for proposals  
2 when we hire them. So when we send out that RFP, that's  
3 going to really set the stage for what that State  
4 Administrator Provider is going to have to provide to us  
5 and to the customers of the utilities that choose to go  
6 that route. We've had a little more interest in that  
7 area than I thought we'd have, so that looks like that's  
8 going to be a pretty big contract.

9 And I think in the RFP, which we're  
10 currently still working on, we're going to require that  
11 the contractor work with the Commission and the advisory  
12 board as they design their programs, design and implement  
13 their programs.

14 Of course that's going to be interesting  
15 because that provider is going to be working directly  
16 with your customers. And in many cases it may be  
17 difficult for the customer -- I know it would be for me  
18 as a customer -- to separate the State provider from my  
19 utility. Because they're both going to be kind of coming  
20 from the same direction. We would expect anybody  
21 adopting that method of complying with the statute to  
22 work with the provider we chose, to help them implement  
23 the program.

24 Another question on the Independent  
25 Energy Optimization Program Administrator. Boy, that's a  
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1 mouthful, isn't it? Please clarify with respect to using  
2 the Independent Energy Optimization Program Administrator  
3 regarding the revenue payments. Is the amount listed in  
4 the statute, 295, Section 91, a strict amount, or just a  
5 floor and thus the provider could owe more?

6 As near as I can interpret the statute --  
7 and I'm just on the staff here, I'm not a commissioner,  
8 so my interpretation probably counts for something less  
9 than if I was a commissioner, so -- those are fixed  
10 amounts. The statute is pretty clear. A lot of places  
11 the statute is very confusing, but in that particular  
12 case, it's clear. It says: If you go this way, you  
13 multiply this times your sales, retail sales, in a  
14 particular year, and you give that money to the Energy  
15 Optimization Program Administrator chosen by the State.

16 UNKNOWN SPEAKER: Do you want us to ask  
17 questions as you go along? Clarifying question?

18 MR. PROUDFOOT: Yes, if it's a clarifying  
19 question. Identify yourself and then ask the  
20 clarification.

21 MR. PETERS: Mike Peters with MECA. On  
22 the payments to the State Administrator, the statute is  
23 clear in my mind that you pay that amount that you owe to  
24 the Administrator for implementation of the program.  
25 However, very likely the utility will have additional

1 expenses such as internal accounting expenses, other  
2 program-related expenses if they have to add a staff  
3 person to handle additional questions from customers. So  
4 I anticipate there will be additional expenses beyond  
5 just what they pay to the Administrator if that's the  
6 route that they select. Would you agree?

7 And second: If the utility has  
8 additional expenses beyond what they pay to the  
9 Administrator, will there be any issue with recovering  
10 those costs in the surcharge? Or is that State payment  
11 to the Administrator the most that the commission will  
12 allow the utility to recover in the surcharge?

13 MR. PROUDFOOT: I'm going to give you my  
14 opinion. Now that's subject to review by the commission,  
15 of course. Looking at the statute, I think that the  
16 money that's collected is the sole amount that you're  
17 going to be able to collect from your customers. And all  
18 of that has to go to the Administrator. That's pretty  
19 clear.

20 Additional expenditures, I think you're  
21 going to have to somehow -- that's just going to be a  
22 cost of doing business as a utility. And you'll just  
23 have to recover those like you would recover an Energy  
24 Optimization Program you were running if we didn't have  
25 the statute.

1                   Now when you file your plan, if you would  
2     like to charge your customers an additional fee, I  
3     suggest at that time you ask the commission about doing  
4     that. And then they can actually speak to this issue.  
5     Because it is a good point, Mike. I understand what  
6     you're saying, that the interface with the State  
7     Administrator is going to be just that, an interface, and  
8     it's not going to be -- there are going to be costs  
9     associated with that. I know the Act doesn't really  
10    cover how that might be handled. So when you have your  
11    plan, I would suggest how you want that handled and we'll  
12    deal with that at that time.

13                  Now I don't know what to -- since we have  
14    no rate regulation for muni's, if a municipal adopted to  
15    go with the State plan and pay the amount, I guess they'd  
16    have to just deal with the cost recovery through their  
17    own cost recovery process. That's a good question.

18                  We're going on to the performance  
19    evaluation of the energy savings calculations. When  
20    counting energy savings for the EO target and using a CFL  
21    lightbulb as an example, which saves 38 kilowatt hours  
22    per year and has a useful life of nine years, do we take  
23    credit for 38 kilowatt hours each year for nine years or  
24    do we take credit for 342 hours the first year (38 times  
25    9)?

1 Well, I would take the 38 kilowatt hours  
2 in that year.

3 Energy saving calculations will be  
4 addressed through measures included in Michigan's Energy  
5 Savings Database. With this input the credit would be 38  
6 credit hours each year.

7 MR. PETERS: Mike Peters. Another  
8 question on that issue. How precise are we going to take  
9 that? In other words, if I put a CFL lightbulb in a  
10 customer's home in July, do I take six months or do I  
11 take one half of that 38 kilowatt hours in the first  
12 year, eight full years, and then one half in the ninth  
13 year? Or from a practical standpoint, would it be a lot  
14 easier just to, whenever the Energy Optimization effort  
15 or program gets implemented, that it counts for the full  
16 year? Because obviously at the tail end you're not going  
17 to get credit beyond the nine years. So how precise do  
18 you see us tracking these?

19 MR. PROUDFOOT: My Energy Optimization  
20 expert is absent so -- you know Rob Ozar; Rob is not here  
21 today. But.

22 MR. PETERS: You know, theorhetically you  
23 could take it down to the minute when the lightbulb got  
24 put in, so.

25 MS. HANNEMAN: We are going to have an  
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1 evaluation group that gets together.

2 MR. PROUDFOOT: Janet tells me we're  
3 going to have an evaluation work group to work out some  
4 of these details. Now personally I vote for simplicity.

5 MR. PETERS: We do too.

6 MR. PROUDFOOT: Mainly because I'm simple  
7 minded, but.

8 MR. PETERS: Well, we all recognize that  
9 the more detailed the tracking evaluation process, the  
10 more expensive that process becomes. So from our  
11 standpoint, a simpler approach equals a less expensive  
12 approach in most instances. But we'll be happy to work  
13 with the evaluation work group on that issue as well.  
14 Thanks.

15 MR. PROUDFOOT: Now here is a question  
16 regarding the City of Detroit Public Lighting. Do we  
17 have somebody here from the city?

18 (Hands raised.)

19 O.K. In developing an EOP can the City  
20 of Detroit Public Lighting Department aggregate the  
21 various energy efficiency activities that the various  
22 City of Detroit departments and agencies are already  
23 conducting to serve as the DPLD controlled and  
24 implemented plan within the meaning of the Act? Would  
25 such an aggregation of other city energy efficiency

1 programs serve as DPLD's self-directed EO plan rather  
2 than DTE separately charging DPLD for DPLD's  
3 participation in DTE's Energy Optimization activities?

4 This whole issue confused the heck out of  
5 me, I'll admit that, but I'm going to take a stab at it.

6 The statute is designed to generate an  
7 Energy Optimization Program for retail customers. So I  
8 guess the base answer is no. You need to provide an  
9 Energy Optimization plan for your retail customers. Now  
10 in cases where you are a retail customer of Detroit  
11 Edison at your various facilities, then Detroit Edison  
12 will provide an Energy Optimization program for you,  
13 because you are a retail customer of Detroit Edison.

14 That's the only way I can see the statute  
15 working through all this. I'll be frank to admit I don't  
16 understand the relationship -- or my knowledge is limited  
17 regarding the relationship of the DPLD with regards to  
18 Detroit Edison. And I'm unfamiliar, actually because we  
19 frankly do not regulate the DPLD, how many retail  
20 customers you actually have. I was under the impression  
21 you had very few, almost zero retail customers.

22 On to the next question. The statute  
23 does not itself differentiate between retail and  
24 wholesale customers for eligibility for a self-directed  
25 EO Plan. Eligibility is strictly limited and related to  
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1 the annual peak demand of the customer's sites covered by  
2 the self-directed plan. Is that interpretation correct?

3 Now only retail customers are eligible  
4 for self-directed Energy Optimization plans. In cases  
5 where your facilities are retail customers of Detroit  
6 Edison, not wholesale customers of Detroit Edison, then  
7 you can do a self-directed plan, an entity could do a  
8 self-directed plan. I don't think the Act requires a  
9 provider to provide Energy Optimization services for a  
10 wholesale customer. To me that's just beyond the scope  
11 of the legislation.

12 Now that wholesale customer, after making  
13 a purchase of electricity from Detroit Edison or  
14 whatever, maybe off the MISO market or Wolverine or who  
15 knows what, at that point they're required to provide an  
16 Energy Optimization Plan for their retail customers,  
17 which of course could engage in a self-directed plan if  
18 they meet the requirements of the statute.

19 O.K. We have some other questions that  
20 were sent in yesterday. I don't really understand the  
21 first one, but my staff tells me we're working on it.  
22 The question has to do with a set of filing deadlines for  
23 municipal utilities to be filed some time after  
24 December 14th, that have been filed. I think we're  
25 working on that one. We're putting together the

1 deadlines, right?

2 (Heads nodding affirmatively.)

3 MR. PROUDFOOT: And Jim, the second  
4 question was something regarding, to clarify what filing  
5 jointly meant. I think Jim did a good job of answering  
6 that. Now for municipals where you're doing -- you're  
7 actually not doing any contested case hearing -- I'm not  
8 so sure, it might just mean putting it in the same binder  
9 separated by dividers and supplying it to us. Since  
10 they're not conducting a contested case hearing,  
11 hopefully that should suffice.

12 Third question. Please provide an update  
13 on the status of Michigan Energy Savings database and how  
14 small utilities may gain access to it. If a utility  
15 finds what it believes to be problems with the database  
16 may it substitute estimates it finds more credible?

17 Are these measures characterizations to  
18 be considered definitive for estimating program savings?

19 MS. POLI: Paul, I can answer a couple of  
20 those questions.

21 MR. PROUDFOOT: Well, great.

22 MS. POLI: I do have, from a consultant,  
23 copies of the database, and he suggested that we have,  
24 for all those that participated, a work group where we  
25 kind of go through how to use it. So that's ready to

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1 kind of be scheduled, as soon as we get together on  
2 timing. And then it could be made available on our  
3 website soon after. I think that's probably the extent  
4 of what I can offer.

5 MR. PROUDFOOT: I think there was some  
6 fee, right? Everybody had to share the fee?

7 MS. POLI: Everybody that had  
8 participated, right, would have access to this. He hasn't  
9 gotten with all of the smaller groups to say this is  
10 done, but it's effectively done.

11 MR. PROUDFOOT: It was a pretty modest  
12 fee.

13 MS. POLI: Very modest.

14 MR. PETERS: Mike Peters. I had a  
15 clarification on that. The one question that you didn't  
16 respond to was whether the deemed energy savings database  
17 would be the definitive measure for EO programs, such as,  
18 you know, it says the CFL lightbulb is worth 38-kilowatt  
19 hours per year, is the commission going to hold those  
20 measures as being definitive? And if the utility wants  
21 something different, is that going to be a possibility?

22 MR. PROUDFOOT: Oh, another of my staff  
23 has a hand up. I love this.

24 MS. HANNEMAN: The concept is that all of  
25 the companies that would be participating in this deemed

1 savings database, those that have a problem or quibble  
2 with the data in here, that you would raise it within  
3 that context and reach agreement with the parties there,  
4 rather than all the companies potentially going off on  
5 their own direction. That's the concept.

6 MR. PETERS: So in other words the deemed  
7 -- the definitive measure for the EO programs.

8 MR. PROUDFOOT: I think the correct  
9 answer is, we would like it to be. The statute doesn't  
10 give me any authority, that I can find, to require that.  
11 We're hoping that the savings will be, in the database,  
12 will be reasonable and that you'll be able to work with  
13 the work group. You know if it's really wrong, it  
14 probably needs to be adjusted for more than just your  
15 particular company.

16 MS. HANNEMAN: There are going to be  
17 certain clients that are going to be accommodating  
18 through it.

19 MR. PROUDFOOT: But you know, it's your  
20 plan, and if you choose to put some other savings in  
21 there, as long as they're reasonable and they have backed  
22 up documentation, you can support them.

23 MS. POLI: Would you want that noted,  
24 though, that it was different from the deemed savings  
25 database?

1 MR. PROUDFOOT: Yes. I think the idea  
2 is, if it's in the database we're going to accept it  
3 automatically. If you want an exception from that,  
4 you're going to have provide your own documentation. You  
5 think that'll work?

6 MR. PETERS: I think you're setting  
7 yourself up for an administrative nightmare, but that's  
8 fine. I can agree with that answer, that if you want to  
9 use something other than the deemed energy savings  
10 database you're going to have to prove up your  
11 information and support that with documentation, and that  
12 is going to be reviewed probably by the commission and  
13 either agreed to or not agreed to. So that's fine.

14 MR. PROUDFOOT: Personally I'd like to  
15 require that everybody use the database and that's the  
16 end of it. But I don't think I currently have that  
17 authority. Maybe the commission will speak to that as  
18 they do the plans. I suspect most providers will be more  
19 than happy to adopt the savings estimates in the database  
20 because it gives you an automatic backstop. I mean  
21 that's what I'd do unless I felt really strongly that it  
22 was in error somewhere.

23 MS. HANNEMAN: Well, at the meetings, if  
24 the people, at least those who are representing the  
25 muni's, all agree to participate, I don't know if

1 individual members can fail to follow through with that  
2 agreement. But the understanding of the group meeting  
3 was that everybody voluntarily agreed to go with the  
4 statewide database.

5 MR. PROUDFOOT: You know it's a great  
6 resource, but...

7 UNKNOWN SPEAKER: Followup question?

8 MR. PROUDFOOT: We have another question.

9 MR. WALTERS: Dave Walters, Zeeland  
10 Public Works. I think that the comment goes to more than  
11 just those people that are saying that the deemed savings  
12 are inappropriate. There may be a particular situation  
13 where you have better information than the average would  
14 dictate. In other words, the deemed savings for a CFL  
15 are based on an average of a thousand CFL's put in. But  
16 if you know in your particular instance the CFL's that  
17 you are putting in are used eight hours a day rather than  
18 two hours a day, or whatever the deemed savings,  
19 shouldn't you put that in your plan?

20 MR. PROUDFOOT: Well, I can see where you  
21 might have an example, especially like if you were  
22 replacing a -- well, a street lighting activity for  
23 instance, or a parking lot lighting activity, you might  
24 have better data. Frankly I don't know what's exactly in  
25 the database. I would hope the database had some means

1 for adjusting the expected hours of operation. But like  
2 I said, I'll go back to my original answer, I don't have,  
3 I believe, the authority to make you use the database as  
4 you put together your plan and calculate your savings.  
5 But if you don't use the database, then you'll have to  
6 provide documentation.

7 Now, do I want to look at a 50-foot stack  
8 of documentation? Probably not. But I think as we move  
9 into implementation we'll get a clearer idea how this is  
10 going to work.

11 MR. PETERS: Paul, Mike Peters. I would  
12 recommend that that issue be part of the evaluation work  
13 group. Because I see that more of an evaluation process,  
14 because I can design my plan around the deemed energy  
15 savings database, put the CFL's out into my co-op service  
16 area, but if I've got good information that the customer,  
17 my member, replaced a 100-watt CFL and not a 60-watt --or  
18 a 100-watt lightbulb with a 24-watt CFL, that's going to  
19 give me more savings than what the deemed energy savings  
20 database is using, which is based on a 60-watt  
21 replacement program.

22 So I see that maybe as more of an  
23 evaluation process at the end. Because if I have good  
24 data from my member consumer that they took ten CFL's and  
25 here's what they replaced, that might drive my numbers

1 higher than what my plan was based around. So that might  
2 be more of an evaluation issue as opposed to a program  
3 design issue.

4 MR. PROUDFOOT: I would agree with that.  
5 We can work that out as we go along.

6 Number four. These questions are not  
7 getting easier. Does the Commission propose to establish  
8 standardized inputs for use in applying the USRCT --  
9 that's the name of a savings test commonly used. I  
10 forget, what's the acronym stands for? Utility system  
11 resource cost test. I still remember some of that stuff.  
12 Or other tests that the Commission requires utilities to  
13 conduct in evaluating the cost-effectiveness of their  
14 programs? If so, when and through what process?

15 I think there's enough documentation out  
16 there regarding this activity that the individual  
17 providers can easily understand what should be included  
18 in each one of these cost studies, that this is a known.  
19 And we'll certainly provide assistance if there are  
20 issues regarding them.

21 Please clarify the intent of 460.1089,  
22 Section 89,(1) and (3). That's I believe of 295. Are  
23 utilities allow to spend more than would be raised by the  
24 caps on cost recovery described in (3) if the funds are  
25 being used for programs that are cost effective? If so,



1 does that mean that the caps can be exceeded in this  
2 circumstance?

3 First of all, with regard to muni's, I  
4 don't know if -- I guess I shouldn't say whether I care  
5 or not. But the intent of the legislation is to provide  
6 an Energy Optimization program, a specific Energy  
7 Optimization Program that meets specific targets and to  
8 keep the cost to customers capped as they're modeled.

9 Now, if a utility, especially a municipal  
10 utility, is undertaking activities that are not included  
11 in this program and choose to provide funding at some  
12 level for that activity, not through the surcharge but  
13 through some other funding activity that they, whatever  
14 they may want to do, raise general rates, charge a  
15 special conservation fee, I think they can do that. I  
16 don't think the intent of the legislation is to prohibit  
17 utilities from doing conservation activities outside of  
18 this particular Energy Optimization requirement.  
19 Especially if the utility is a municipal utility which  
20 doesn't fall under the Commission's rate regulation  
21 activity. I expect it to be very difficult for me to  
22 discover that you are undertaking that activity.

23 Number six I'm not sure I can deal with.  
24 Can costs for program delivery be included in the bills  
25 submitted by a Joint Action Agency for municipal or

1 cooperative utilities that is selected by Member  
2 Utilities to collect revenues and expend program costs on  
3 behalf of its members?

4 Is the idea there that we would create  
5 some entity, like maybe the Michigan Municipal Energy  
6 Optimization Agency, and then have that agency collect,  
7 bill individual customers? Is that what the question  
8 means?

9 MR. BECKHUSEN: I can clarify.

10 MR. PROUDFOOT: O.K.

11 MR. BECK: Paul Beckhusen, Coldwater  
12 Public Utilities. I think what this is in regards to is,  
13 we are a member of a Joint Action Agency that we provide  
14 all our power supply through. Can we, through that  
15 agency, evaluate the program and identify what problems  
16 might be beneficial as a whole, there's five municipals  
17 in the organization, fund those programs through that,  
18 and then collect those through the bill we receive from  
19 the agency for our power supply?

20 MR. PROUDFOOT: Let me think about this  
21 for a minute. I believe you could. It would depend on  
22 your, the rules governing the ability of each individual  
23 municipal to establish rates that they charge to their  
24 customers, which I'm not involved in. I assume you have  
25 a board, right, for your particular --

1 MR. BECKHUSEN: That's correct.

2 MR. PROUDFOOT: And then the other muni's  
3 in there also have boards?

4 MR. BECKHUSEN: Or governing bodies, city  
5 council.

6 MR. PROUDFOOT: They would all have to  
7 agree to that, right?

8 MR. BECKHUSEN: That how our rates are  
9 set now, yes.

10 MR. GARY KIRK: That's your intention, is  
11 to file jointly. So essentially this Joint Action Agency  
12 becomes the joint plan, is that essentially what you're  
13 saying.

14 MR. BECKHUSEN: We know what filing  
15 jointly is; I mean we addressed that in number two. Our  
16 approach would be to try to maximize our program amongst  
17 that agency, to meet the renewable requirements for all  
18 five members.

19 MR. KIRK: You're all less than 15,000 or  
20 whatever?

21 MR. BECKHUSEN: Yes.

22 MR. PROUDFOOT: I think it'll work. But  
23 it'll have to be approved by your individual governing  
24 body.

25 MR. PETERS: Paul, Mike Peters. Can I  
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1 ask a kind of followup question to that?

2 MR. PROUDFOOT: Sure.

3 MR. PETERS: Now the individual entities  
4 within that group would have to meet the standard  
5 separately, correct? Such as, let's say you have four  
6 co-ops that are members of Wolverine, and say Wolverine  
7 does a joint program and one of the members exceeds the  
8 EO requirements significantly, and one of the members  
9 doesn't meet the requirements, can those four entities be  
10 considered one entity and collectively they have met the  
11 requirements? Or does each entity have to meet it  
12 separately?

13 MR. PROUDFOOT: I think each entity is  
14 going to have to meet it separately.

15 MR. PETERS: That's the way I understood  
16 it as well. But any costs that the group incurred, those  
17 could be divided amongst those entities and collected as  
18 long as they're accounted for? Let's say Wolverine has  
19 expenses that they incur to promote some energy  
20 efficiency programs for their membership, those costs, as  
21 long as they're accounted for, can be collected and paid  
22 through the charges that those co-op members assess to  
23 their members?

24 MR. PROUDFOOT: I believe so. And you'd  
25 want to specify that when you file your plan, how you

1 intend to work that out. Essentially Wolverine becomes  
2 your contract provider.

3 MR. PETERS: It's a vendor of service  
4 provider.

5 MR. PROUDFOOT: Right.

6 MR. PETERS: For the member co-op. Just  
7 like MECA is in that role as well as the services that  
8 we're providing for our membership. We have to account  
9 for those, the members can pay those expenses as part of  
10 the EO surcharge?

11 MR. PROUDFOOT: Yes. You would file that  
12 with your plan. So you'd have the Commission's blessing  
13 to charge the customers. And actually I think it's a  
14 great idea.

15 O.K. The last question. In case of  
16 small utilities, is it possible to meet the obligation to  
17 provide customer class equity in Energy Optimization  
18 expenditures over a two or three year period? Is the  
19 question that you want to average it over a two or three  
20 year period? Maybe the first year you want to do  
21 residential, the second year you want to do commercial?  
22 I guess I don't understand. Oh, good. We're going to  
23 get clarification.

24 MR. BECKHUSEN: Paul Beckhusen,  
25 Coldwater. I believe that's the case, is: How do we  
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1 effectively recover the expenditures amongst the class?  
2 Again in a municipal case, our largest number of  
3 customers is residential meters, O.K. We collect dollar  
4 for dollar residentially and have to reinvest  
5 residentially. Can we average those costs over a few  
6 years to meet those, that recovery period?

7 MR. PROUDFOOT: I thought for small  
8 muni's that would be a reasonable plan, you know. Of  
9 course you're going to put that -- your plan is a little  
10 different than some of the other plans because you're  
11 going to put your plan out in the public comment,  
12 through your own customer base. Now if your own customer  
13 base is happy with that, I think as long as you -- I  
14 think the Act actually says to the extent possible that  
15 you, the money goes back to the customer class that paid  
16 it. So the Act gives you a little bit wiggle room there.  
17 I think probably trying to do it over a two or three year  
18 period would work.

19 Well, that's the -- do we have any  
20 prefiled questions?

21 MS. HANNEMAN: A lot of people took  
22 slips, but no one turned them in to me, so I don't know  
23 if they're intending to ask questions or not.

24 MR. PROUDFOOT: Well, let's take a  
25 ten-minute break. We'll reconvene at 20 after.

1 (At 10:10 a.m., a recess was taken.)

2 - - -

3 MR. PROUDFOOT: Well, now I have a list  
4 of way more white questions than yellow ones. We're  
5 going to start out with PRS questions that I answered  
6 yesterday. It says: Yesterday a distinction was made  
7 between ultra-supercritical and supercritical. Could you  
8 repeat that for the audience today and also indicate if  
9 there are guidelines for how often the life cycle cost of  
10 new conventional coal will be re-calculated?

11 I think what I said yesterday was: In  
12 the Commission order I believe what we affectionately  
13 call the hurdle rate, the Commission had a more  
14 technically correct name for it, but the Act requires  
15 that in the RPS there's a test, a hurdle that you have to  
16 pass before you can move forwards. I think the  
17 Commission in the order, they took my advice and used the  
18 term ultra supercritical. I think at that point it was  
19 bad advice and really what we meant to say was  
20 supercritical. So that's what the cost estimates that  
21 we'll be sending up the Commission will be based on.

22 MR. GREDVIG: Could you answer the second  
23 part of that question about the re-calculation?

24 MR. PROUDFOOT: I'm not sure that -- I  
25 think anytime a plan, anytime you have a new plan you

1 have to re-calculate the hurdle rate, so that's  
2 technically the answer.

3 We have a question regarding heat pumps  
4 use more electricity but save total energy usage. Would  
5 they qualify for an Energy Optimization program?

6 I think I'm going to go out on a limb  
7 here. I think groundwater or ground heat pump systems  
8 may qualify for Energy Optimization. I don't think a  
9 straight heat pump would qualify. But we're going to  
10 have -- that's something we're going to have to look at  
11 when we actually look at the savings for the plans.

12 Question on rate classes. We have five  
13 different residential rates. If each -- Is each rate  
14 supposed to show the Energy Optimization reductions,  
15 i.e., 23 percent, or is the rate class considered as a  
16 whole?

17 We would consider it as a whole.

18 Here's a question on time of use rates or  
19 load shifting. Shifting loads to offpeak saves/postpones  
20 the need to build new power plants which is part of the  
21 SB 275. Do load shifting rates qualify for EO programs?

22 I think we actually look at the statute.  
23 The statute talks quite a bit about load management, but  
24 then when it actually starts giving credit for savings,  
25 that only true kilowatt-hour savings counts. So you only



1 get savings for load shifting programs that save kilowatt  
2 hours. I think the statute also requires the  
3 Commission's staff and the Commission to promote load  
4 management activities.

5 It says: Could we use EO funds to  
6 install energy efficient streetlights?

7 I think the answer to this question is:  
8 The plan was designed to conserve energy for retail  
9 customers. If you have retail customers with  
10 streetlights, then I think you can use the EO funding to  
11 operate a program which would change out those lights.

12 Do we have a mike for him?

13 MR. WEEKS: Joe Weeks, Michigan Municipal  
14 Electric Association. Just a followup to that, Paul.  
15 The city government is a customer of the municipal  
16 utility. So to the degree that that customer is  
17 installing more energy efficiency streetlighting,  
18 wouldn't that count?

19 MR. PROUDFOOT: I guess if technically  
20 the city is a retail customer of a municipal utility,  
21 yes. That would be a program for the EO plan.

22 One more last late question. PA 295  
23 divides customers into three categories. Do municipals  
24 have discretion to place customers into a class that they  
25 feel is more appropriate based on usage? Example, can  
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1 pole barns be put into residential?

2 I think the Commission spoke to this in  
3 the temporary order, and there is some concern regarding  
4 extremely small commercial. And I think in this case  
5 where you had a customer that for some reason had a small  
6 pole barn and it's separately metered and you treat him  
7 as a commercial customer, I think you could -- you have  
8 the flexibility, especially if a municipal, the  
9 flexibility to treat that customer as a residential  
10 customer. I also think the Commission asked the  
11 utilities, as they put together their plans, or the  
12 providers as they put together their plan, to review this  
13 issue.

14 It is of some concern to me because a  
15 common Commission complaint that we get here are people  
16 that have hired an electrician to put electricity in  
17 their horse barn or whatever, and the electrician, rather  
18 than run it through the house, called Edison, had a  
19 separate meter installed, and then the customer finds  
20 himself on the commercial rate for that second meter,  
21 paying a rather large surcharge. I can imagine some of  
22 those customers that I have talked to over the last 30  
23 years that I have worked here, that are mad as hops  
24 anyway, if they get the commercial billing for this RPS  
25 Energy Optimization Program, are really going to be

1 happy. I'm being sarcastic. They're going to be,  
2 rightly they're going to be mad at the Commission and  
3 probably the legislature too.

4 I think the Commission did ask the  
5 providers to review this issue. The concern being, I  
6 think we looked at the billing determinants, Rob and I  
7 did, and there are a large number of commercial customers  
8 or people on the commercial or general service rates that  
9 use very little electricity at that particular meter.

10 Now the Act actually is somewhat  
11 confusing when it discusses commercial versus industrial  
12 and talks about primary and secondary. And it really  
13 doesn't talk about the division of electric customers in  
14 the same terminology that the utility industry typically  
15 talks about division of customers. So that whole issue  
16 is going to have to be worked out. I think the  
17 Commission discussed that a little bit in the temporary  
18 order.

19 Well, that's all the questions we have.  
20 Right? All the written questions we have. Are there any  
21 questions or comments from the audience?

22 All right. Well, since there are none, I  
23 guess we're at a close here. Now feel free to contact me  
24 or my staff -- Wait a minute. We need to ask the people  
25 on the phone. Were there any questions from the website?

1 MR. STANTON: No.

2 MR. PROUDFOOT: No. We have a website  
3 and you could ask a chat question.

4 MR. COOPER(?): Paul, I have one last  
5 question.

6 MR. PROUDFOOT: I knew that. You all  
7 knew that.

8 MR. COOPER(?): I think someone from  
9 Wakefield might be on the phone, so I told the city  
10 manager I'd ask his question.

11 They buy wholesale from Xcel, they're on  
12 the far western part of the UP. Within their wholesale  
13 rate today there is already a percentage of renewable  
14 energy. What I'm wondering is: Do we have a detailed  
15 map of what you would consider Xcel's footprint would be  
16 so they can tell if they're already -- because they  
17 already are paying. Does it cross state lines? Xcel  
18 would cross state lines. Do you have maps like for I&M,  
19 they're a provider? Do you have a map of the UP  
20 companies, where they're located, so we know whether a  
21 renewable resource is located in that footprint or not?

22 MR. PROUDFOOT: We have service territory  
23 maps that are pretty general. I think we're going to  
24 have to discuss this off-line. It's a bit surprising to  
25 me how many small companies are in the Wisconsin and

1 Michigan border, but we'll have to work this out off-line  
2 I think.

3 That was the last question then. I'd  
4 like to thank everybody for coming. Wait. O.K. We have  
5 a question on the phone.

6 MR. DASHO: We have a customer who is  
7 interested in perhaps having a self-directed program, but  
8 they are wondering what kind of monitoring would the  
9 Public Service Commission be doing to ensure that they're  
10 meeting the goals that they put forward in their program?

11 MR. PROUDFOOT: Well, I think the statute  
12 is pretty clear on that. The self-directed entity would  
13 provide documentation to the provider, and then they  
14 would file their savings numbers with the provider, and  
15 as long as they're meeting the goal, you won't see  
16 somebody from the Public Service Commission show up at  
17 your door.

18 I think there was some concern when we  
19 were working on the legislation that we might have the  
20 energy police. But I think if there is some kind of  
21 known discrepancy, the Act provides a methodology for a  
22 filing. But other than that, it's somewhat of an honor  
23 system.

24 MR. STANTON: Paul, we need to catch his  
25 name and affiliation for the record.

1 MR. DASHO: That was Dan Dasho,  
2 Cloverland Electric. Dasho, D-a-s-h-o.

3 MR. PROUDFOOT: Greg.

4 MR. KIRK: We might want to mention, too,  
5 that those self-directed plans, there's provisions for  
6 keeping them confidential. So even if for some reason we  
7 did have to send somebody to a location, we would still  
8 be bound by the need to keep what they're doing  
9 confidential.

10 MR. PROUDFOOT: That was one of the  
11 questions that was answered yesterday regarding  
12 confidentiality of self-directed plans. The Commission's  
13 staff has a methodology for keeping those confidential.  
14 When they're sent to us, they should be identified when  
15 they are sent to us that they want to be kept  
16 confidential.

17 Any more questions from the phone?

18 MR. DASHO: Yes, I do have one. This is  
19 Dan Dasho from Cloverland again. I have a question  
20 regarding the REC's. Is the Commission going to create a  
21 market or monitor the market for REC's? Or how do you  
22 see that unfolding?

23 MR. PROUDFOOT: Well, the Commission  
24 under the statute is required to acquire a contractor to  
25 do an accounting for the REC's, accounting and

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1 certification of the REC's. And that, we're currently in  
2 the process of doing that. There will be a fee charged  
3 to the generator when the REC's are created. And when  
4 they're transferred there will be another small fee. And  
5 that'll fund the activity. Other than that, our  
6 involvement in setting a price for REC's is somewhat  
7 limited.

8 Any further questions?

9 Well, I'd like to thank you all for  
10 coming. And like I said, any further questions, contact  
11 me or my staff. Tom Stanton is the RPS expert, and Rob  
12 Ozar is the Optimization expert. Thanks for coming.

13 (At 10:40 a.m., the conference was concluded.)

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## C E R T I F I C A T E

I, Marie T. Schroeder (CSR-2183),  
Certified Shorthand Reporter, do hereby certify that I  
reported in stenotype the technical conference had in  
the above-entitled matter, that being Case No. U-15800,  
before the Michigan Public Service Commission Staff,  
at 6545 Mercantile Way, Lansing, Michigan, on Tuesday,  
January 6, 2009; and do further certify that the  
foregoing transcript, consisting of 40 pages, constitutes  
a true and correct transcript of my stenotype notes.

---

Marie T. Schroeder, CSR-2183  
33231 Grand River Avenue  
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Dated: January 12, 2009